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May 28, 2003

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FASB Rule Shift Could Increase Companies' Pension-Plan Costs

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Staff Reporters of THE WALL STREET JOURNAL

Accounting-standard setters are weighing a move that could make a certain type of pension plan more burdensome to companies' balance sheets.

Companies and pension-plan advisers are resisting the move, saying it could lead to reduced benefits. Still, stiffer rules probably wouldn't greatly weaken companies' love affair with the so-called cash-balance pension plan, compensation consultants say.

Since the 1980s, hundreds of companies have converted to cash-balance pension plans from traditional benefit plans. Traditional "defined benefit" pension plans promise a lifelong monthly retirement payment, based on years of service and final pay. Companies switching to a cash-balance plan determine the value of benefits built up by employees under a traditional plan; they then place some or all of that sum into hypothetical individual employee accounts that grow with contributions and interest credits made over the years by the employer.

But labor advocates have said that when a company converts to a cash-balance plan, longer-service workers typically see their benefits reduced because they no longer are aided by a formula that rewards them for many years on the job.

Now, under a proposed change backed by staff at the Financial Accounting Standards Board, employers offering certain cash-balance plans would change the way they calculate their obligations to workers. Under the change, employers would use the same interest rate they use for crediting employees' accounts -- typically the yield on various government securities -- to calculate this obligation in present-day terms. Currently, companies calculate this obligation for all kinds of pension plans using the

yield on high-quality corporate bonds. Because the yield on government bonds is typically lower than that of corporate bonds, companies would be using a lower rate to calculate what their future obligations would cost in today's terms; the lower the interest rate, the bigger the liability on their balance sheets.

The impact on companies would depend largely on the details of any change, a move the seven-member FASB plans to discuss at a meeting Wednesday.

A change in the rules could cause employers to "choose a different approach, or, in going with a cash-balance plan [to] lower the level of benefits" to offset the additional cost, said Alan Glickstein, senior consultant at benefits-consulting group Watson Wyatt Worldwide, among the groups lobbying FASB against the change.

FASB staffers say that, because the nature of the benefit promised to employees differs from that of traditional pension plans, so, too, should the calculation of a company's obligation. Watson Wyatt says that roughly one-third of the largest companies offer cash-balance plans. Most would be covered by the proposed change, but it isn't clear how many would be hit with a higher liability under it. The plans are popular with employers, in part because switching to a cash-balance plan can mean a smaller obligation for a company with an older work force.

Meantime, in Washington, D.C., a retiree-advocacy group is calling for a Labor Department investigation into how companies calculate a different set of pension figures: those used to determine how much money employers must contribute to their plans annually. The National Retiree Legislative Network wants to halt a proposal in Congress that would let companies contribute less to defined-benefit plans of all kinds, including cash-balance plans. Employer groups are backing the change in the face of persistent low interest rates and three years of weak investment returns, the combination of which could force many companies to make contributions to keep pension plans adequately funded.

"We would see no reason to change away from the high-quality corporate bond as the basis for the discount rate," said a spokeswoman for **General Motors** Corp., which has a cash-balance plan among other types of plans, adding that the company wasn't aware that the FASB was contemplating a change to the accounting.

Separately, the FASB Tuesday agreed to require enhanced pension-fund disclosure in financial statements. The new requirements would include a description of types of investments held by pension plans -- such as stocks, bonds or real estate -- and estimated returns for each asset group. Also, companies would be required to estimate the period over which benefits would be paid as well as how much they expect to contribute to the pension plan the next year. The FASB plans to issue a proposal on pension-disclosure changes with the aim of a final rule by year's end.

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Updated May 28, 2003

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